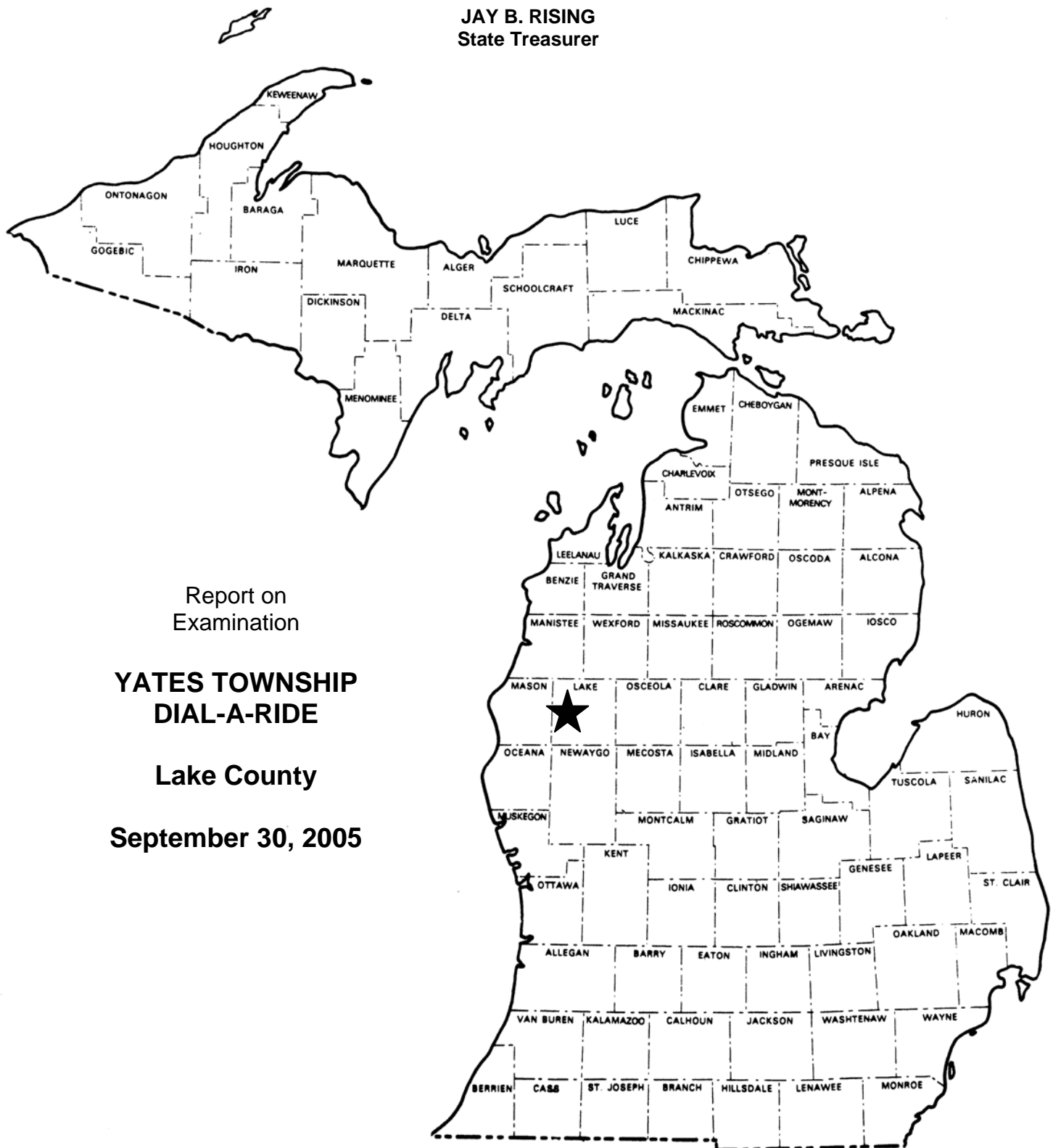


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Report on
Examination

**YATES TOWNSHIP
DIAL-A-RIDE**

Lake County

September 30, 2005

Local Audit and Finance Division
Bureau of Local Government Services



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

November 17, 2005

Yates Township
Dial-A-Ride
P.O. Box 147
Idlewild, Michigan 49642

RE: Unqualified Opinion on Basic Financial Statements and Supplementary
Schedule of Expenditures of Federal and State Awards--Governmental Entity

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying basic financial statements of the Yates Township Dial-A-Ride, a component unit of Yates Township, Lake County, as of and for the year ended September 30, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Dial-A-Ride's management. Our responsibility is to express opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Yates Township Dial-A-Ride as of September 30, 2005, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 2005 on our consideration of the Yates Township Dial-A-Ride's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Yates Township Dial-A-Ride, taken as a whole. The accompanying supplemental information in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. With the exception of Schedule 3 marked "unaudited," the information on the schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

The Management's Discussion and Analysis on pages 1 through 4 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

YATES TOWNSHIP DIAL-A-RIDE

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YATES TOWNSHIP DIAL-A-RIDE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

Our discussion and analysis of the Yates Township Dial-a-Ride's financial performance provides an overview of the Dial-A-Ride's financial activities for the fiscal year ended September 30, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Dial-A-Ride and present a longer-term view of their finances.

Overview of the Financial Statements

This annual report consists of three parts--management's discussion and analysis (this section), the basic financial statements, and an additional section that presents supplemental information and schedules. The basic financial statements include two kinds of statements that present different views of the Dial-A-Ride:

- The first two statements are financial statements that provide both long-term and short-term information about the Dial-A-Ride's overall financial status. These statements report information about the Dial-A-Ride, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Dial-A-Ride's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses, and Changes in Net Assets regardless of when cash is received or paid. The two statements report the Dial-A-Ride's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Dial-A-Ride's financial health or position.
- The remaining Statement of Cash Flows is to demonstrate the activities of the Dial-A-Ride as it relates to cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

Reporting the Dial-A-Ride as a Whole

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Dial-A-Ride, as a whole, and about its activities in a way that helps answer the question of whether the Dial-A-Ride, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets include all of the Dial-A-Ride's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid.

YATES TOWNSHIP DIAL-A-RIDE

MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements, mentioned above, report the Dial-A-Ride's net assets and how they have changed. The reader can think of the Dial-A-Ride's net assets (the difference between assets and liabilities) as one way to measure the Dial-A-Ride's financial health or financial position. Over time, increases or decreases in the Dial-A-Ride's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Dial-A-Ride you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Dial-A-Ride's buses, and changes in the laws related to the operating assistance received from the Federal and State government.

Financial Analysis of the Dial-A-Ride as a Whole

The Dial-A-Ride's net assets decreased approximately 5%, or \$153,840, from \$2,831,638 to \$2,677,798 for the year ended September 30, 2005. The net assets and change in net assets are summarized below.

Net Assets

The unrestricted net assets increased by \$69,621 and the investment in capital assets decreased by \$223,461 during 2005. The decrease in the investment in capital assets decreased due to the depreciation on the six new buses, wrecker, and facility improvements purchased last year and no capital assets purchased in the current year.

Net assets as of year ended September 30, 2005 are as follows:

	<u>2004</u>	<u>2005</u>	<u>Variance</u>	<u>%</u>
Current and Other Assets	\$ 1,607,458	\$ 1,624,171	\$ 16,713	1.03%
Capital Assets	<u>1,293,875</u>	<u>1,070,414</u>	<u>(223,461)</u>	<u>-20.88%</u>
Total Assets	<u>2,901,333</u>	<u>2,694,585</u>	<u>(206,748)</u>	<u>-7.67%</u>
Current Liabilities	<u>69,695</u>	<u>16,787</u>	<u>(52,908)</u>	<u>-315.17%</u>
Total Liabilities	<u>69,695</u>	<u>16,787</u>	<u>(52,908)</u>	<u>-315.17%</u>
Net Assets				
Invested in Capital Assets	1,293,875	1,070,414	(223,461)	-20.88%
Unrestricted	<u>1,537,763</u>	<u>1,607,384</u>	<u>69,621</u>	<u>4.33%</u>
Total Net Assets	<u>\$ 2,831,638</u>	<u>\$ 2,677,798</u>	<u>\$ (153,840)</u>	<u>-5.43%</u>

YATES TOWNSHIP DIAL-A-RIDE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

	<u>2004</u>	<u>2005</u>	<u>Variance</u>	<u>%</u>
Operating Revenue				
Charges for Services	\$ 683,314	\$ 554,152	\$ (129,162)	-23.31%
Nonoperating Revenue				
Local Contributions	47,966	24,568	(23,398)	-95.24%
Tax Levy		155,338	155,338	100.00%
State of Michigan Operating Grants	555,853	504,264	(51,589)	-10.23%
Federal Operating Grants	145,740	161,584	15,844	9.81%
Interest Earned	36,244	36,628	384	1.05%
Prior Year Adjustments	(12,623)		12,623	0.00%
Nontransportation Revenue	<u>6,188</u>	<u>17,079</u>	<u>10,891</u>	<u>63.77%</u>
Total Revenue	<u>1,462,682</u>	<u>1,453,613</u>	<u>(9,069)</u>	<u>-0.62%</u>
Operating Expense				
Salaries and Wages	998,684	972,896	(25,788)	-2.65%
Depreciation	155,234	223,461	68,227	30.53%
Other	<u>370,533</u>	<u>411,096</u>	<u>40,563</u>	<u>9.87%</u>
Total Operating Expense	<u>1,524,451</u>	<u>1,607,453</u>	<u>83,002</u>	<u>5.16%</u>
Income (Loss) Before Capital Contributions	(61,769)	(153,840)	(92,071)	59.85%
Capital Contributions	<u>760,372</u>	<u>-</u>	<u>(760,372)</u>	<u>-100.00%</u>
Increase in Net Assets	698,603	(153,840)	(852,443)	554.11%
Beginning Net Assets	<u>2,133,035</u>	<u>2,831,638</u>	<u>698,603</u>	<u>24.67%</u>
Ending Net Assets	<u>\$ 2,831,638</u>	<u>\$ 2,677,798</u>	<u>\$ (153,840)</u>	<u>-5.43%</u>

Increases in expenses include the increased cost of diesel fuel. The cost of health insurance is constantly rising as well as the cost of living increases. We experienced a reduction in the school contract of 5% this year due to school budget cuts. This is also the first year of the new county-wide millage passed by the county's residents last year. State operating assistance also declined as the reimbursement percentage declined from 42.23% to 38.43%.

YATES TOWNSHIP DIAL-A-RIDE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset Administration

As of September 30, 2005, the Dial-A-Ride had \$1,070,414 invested in capital assets. This amount represents a net decrease (including additions and deductions) of \$223,461 or 20.88% as follows:

	2004	2005	Total Percentage Change 2003-2004
Capital Assets Being Depreciated			
Building	\$ 360,211	\$ 360,211	0.00%
Bus Garage	266,804	266,804	0.00%
General Equipment	146,032	146,032	0.00%
Buses	1,671,076	1,671,076	0.00%
Local Equipment	37,145	37,145	0.00%
Subtotal	2,481,268	2,481,268	0.00%
Total Capital Assets	2,481,268	2,481,268	0.00%
Total Accumulated Depreciation	1,187,393	1,410,854	15.84%
Total Net Capital Assets	\$ 1,293,875	\$ 1,070,414	-20.88%

Economic Factors and Next Year's Budget

The 2005/2006 budget will increase due to increases in fuel costs and fringe benefits programs that continue to drive up the cost of doing business. To offset the increasing costs, the Dial-A-Ride system has begun receiving county-wide millage funds in 2005.

Contacting the Dial-A-Ride's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Dial-A-Ride's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the director's office.

**YATES TOWNSHIP DIAL-A-RIDE
STATEMENT OF NET ASSETS
September 30, 2005**

EXHIBIT A

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 985,175
Investments	398,647
Accounts Receivable--General	29,807
Due From County	77,338
Due From State	133,204

Total Current Assets 1,624,171

Noncurrent Assets

Capital Assets (Net of Accumulated Depreciation)	<u>1,070,414</u>
--	------------------

Total Noncurrent Assets 1,070,414

Total Assets \$2,694,585

LIABILITIES AND FUND EQUITY

Current Liabilities

Accounts Payable	\$ 4,250
Accrued Payroll	12,151
Other Payroll Liabilities	386

Total Current Liabilities \$ 16,787

NET ASSETS

Invested in Capital Assets	\$ 1,070,414
Unrestricted	<u>1,607,384</u>

Total Net Assets \$2,677,798

The Notes to Financial Statements are an integral part of this statement.

**YATES TOWNSHIP DIAL-A-RIDE
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
For the Year Ended September 30, 2005**

EXHIBIT B

Operating Revenue	
Fares--Demand Response	\$ 31,871
Job Access Reverse Commute Contract	77,879
School Transportation Revenue	398,759
Special Transit Fares	45,643
	<hr/>
Total Operating Revenue	554,152
	<hr/>
Operating Expense	
Salaries, Wages and Fringe Benefits	972,896
Depreciation	223,461
Other	411,096
	<hr/>
Total Operating Expense	1,607,453
	<hr/>
Operating Income (Loss)	(1,053,301)
	<hr/>
Nonoperating Revenue	
Local Contributions	24,568
Tax Levy	155,338
State of Michigan Operating Grants	
Local Bus Operating Assistance (Act 51)	489,225
Specialized Services	14,421
Operating Assistance--Capital Contracts	617
Federal Operating Grants	
USDOT Operating Grant	157,855
Rural Transit Assistance Program	1,263
Operating Assistance--Capital Contracts	2,467
Interest Earned	36,628
Nontransportation Revenue--Outside Vehicle Maintenance	17,079
	<hr/>
Total Nonoperating Revenue	899,461
	<hr/>
Change in Net Assets	(153,840)
	<hr/>
Total Net Assets--October 1, 2004	2,831,638
	<hr/>
Total Net Assets--September 30, 2005	<u>\$ 2,677,798</u>

The Notes to Financial Statements are an integral part of this statement.

**YATES TOWNSHIP DIAL-A-RIDE
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2005**

EXHIBIT C

Cash Flows From Operating Activities	
Cash Received From Customers	\$ 590,913
Cash Payments to Employees for Services and Benefits	(1,011,645)
Cash Payments to Suppliers for Goods and Services	<u>(425,255)</u>
Net Cash Provided by Operating Activities	<u>(845,987)</u>
Cash Flows From Noncapital Financing Activities	
Nontransportation Revenue	17,079
Local Contributions	24,568
Tax Levy	78,000
State Grants	546,562
Federal Grants	<u>161,585</u>
Net Cash Provided by Noncapital Financing Activities	<u>827,794</u>
Cash Flows From Investing Activities	
Sale or (Purchase) of Investments	(135,145)
Interest on Cash Equivalents	<u>36,628</u>
Net Cash Provided by Investing Activities	(98,517)
Net Increase in Cash and Cash Equivalents	(116,710)
Cash and Cash Equivalents at Beginning of the Year	<u>1,101,885</u>
Cash and Cash Equivalents at End of the Year	<u><u>\$ 985,175</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (1,053,301)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities (Noncash Items)	
Depreciation Expense	223,461
Increase in Accounts Receivable	36,761
(Decrease) in Accounts Payable	(14,159)
(Decrease) in Other Accrued Liabilities	<u>(38,749)</u>
Net Cash Provided by Operating Activities	<u><u>\$ (845,987)</u></u>

The Notes to Financial Statements are an integral part of this statement.

YATES TOWNSHIP DIAL-A-RIDE
NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

The Yates Township Dial-A-Ride is, for financial reporting purposes within generally accepted accounting principles, an enterprise fund of Yates Township (Transportation Fund).

The purpose of the Dial-A-Ride is to acquire, operate, and manage a public transportation system within the boundaries of Yates Township and the surrounding areas within Lake County.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, the financial statements of the Yates Township Dial-A-Ride are a component unit of Yates Township.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Revenue, Expenses and Changes in Net Assets) report information of the activities of the Yates Township Dial-A-Ride. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Dial-A-Ride's assets and liabilities with the difference being reported as either invested in capital assets or restricted net assets.

The Statement of Revenue, Expenses and Changes in Net Assets demonstrates the degree to which the operating expenses of a given function or segment is offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function or segment. Operating revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among operating revenues are reported instead as nonoperating revenue.

The financial activities of the Dial-A-Ride are recorded in an enterprise fund. This fund accounts for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

YATES TOWNSHIP DIAL-A-RIDE
NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for providing busing services. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of the busing services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Dial-A-Ride has elected to consistently apply all applicable FASB pronouncements issued subsequent to November 30, 1989 in accounting and reporting for its proprietary operation.

When both restricted and unrestricted resources are available for use, it is the Dial-A-Ride's policy to use restricted resources first, then unrestricted resources as needed.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value.

YATES TOWNSHIP DIAL-A-RIDE
NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the Operating Fund in the government-wide financial statements. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Provisions for depreciation of equipment are computed on the straight-line method.

Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Operating Facility	12 to 20 years
Buses	3 to 7 years
Maintenance Equipment	3 to 10 years
Office Equipment	6 to 10 years

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal Year

Yates Township Dial-A-Ride operates on the fiscal year of the grantor, October 1 to September 30. The fiscal year differs from the March 31 fiscal year of the township.

YATES TOWNSHIP DIAL-A-RIDE

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits of the Dial-A-Ride are at one bank in the name of the Yates Township Treasurer. Michigan Compiled Laws, Section 129.91 et al., authorizes the township to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks, commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The risk disclosures for the Dial-A-Ride's deposits, as required by GASB Statement No. 40, are as follows:

	<u>Business-Type Activities</u>
Cash and Cash Equivalents	\$ 985,475
Investments	<u>398,647</u>
Total Deposits	<u><u>\$ 1,384,122</u></u>

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 985,175
Investments in Securities, Mutual Funds and Similar Vehicles	398,647
Petty Cash and Cash on Hand	<u>300</u>
Total	<u><u>\$ 1,384,122</u></u>

The bank balance of the Dial-A-Ride's deposits is \$1,000,407, of which \$100,000 is covered by Federal depository insurance.

The Dial-A-Ride has investments purchased through a pooled investment account with Lake-Osceola State Bank. The nature of mutual funds, insurance annuities, bond funds and equity pools does not allow for risk-categorization, which is in accordance with GASB Statement No. 40.

YATES TOWNSHIP DIAL-A-RIDE
NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH DEPOSITS AND INVESTMENTS (Continued)

The GASB Statement No. 40 risk disclosures for the Dial-A-Ride's investments are as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Nonrisk-Categorized	
Public Funds Money Market Investment Account	<u>\$ 398,647</u>
Total Investments	<u><u>\$ 398,647</u></u>

Investments Authorized by the Dial-A-Ride's Investment Policy

The Dial-A-Ride's investment policy authorizes investment in all those that are authorized by law. As stated above, the Dial-A-Ride did not have any investments in the fiscal year ended September 30, 2005.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Dial-A-Ride's investment policy does not contain specific provisions to limit the Dial-A-Ride's exposure to credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Dial-A-Ride's investment policy does not contain specific provisions to limit the Dial-A-Ride's exposure to interest rate risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater.

The Dial-A-Ride's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

YATES TOWNSHIP DIAL-A-RIDE
NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Dial-A-Ride's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. However, the Dial-A-Ride's investment policy does contain a safekeeping and custody section that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The Dial-A-Ride is not exposed to custodial credit risk for investments.

NOTE D--ACCOUNTS RECEIVABLE

The accounts receivable balance consists of contract fares, advertising, and regular fares that were outstanding at September 30, 2005.

NOTE E--PROPERTY TAXES

Property taxes are levied each December 1 on the taxable valuation of properties located in the County of Lake as of the preceding December 31. The County of Lake's 2004 ad valorem tax was levied and collectible on December 1, 2004. It is the policy of Yates Township Dial-A-Ride to recognize revenue from the current tax levy in the 2004/2005 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Dial-A-Ride's operations.

The 2004 real and personal taxable valuation of the County of Lake property amounted to \$394,664,875. Ad valorem taxes of 0.4000 mills were levied for Yates Township Dial-A-Ride operating purposes amounting to \$157,866.

YATES TOWNSHIP DIAL-A-RIDE
NOTES TO FINANCIAL STATEMENTS

NOTE F--DUE FROM STATE

The following amounts were due at September 30, 2005:

Federal Section 5311 Operating Assistance	
Contract 02-0093Z6 for Fiscal Year 2002/2003	\$ 23,588
Contract 02-0093Z10 for Fiscal Year 2003/2004	24,383
Contract 02-0093Z13 for Fiscal Year 2004/2005	24,095
State Operating Assistance--Fiscal Year 2001/2002	15,380
State Operating Assistance--Fiscal Year 2003/2004	96,227
State Operating Assistance--Fiscal Year 2004/2005	<u>(50,469)</u>
Total	<u><u>\$ 133,204</u></u>

NOTE G--CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Building	\$ 360,211			\$ 360,211
Bus Garage	266,804			266,804
General Equipment	146,032			146,032
Buses	1,671,076			1,671,076
Local Equipment	<u>37,145</u>			<u>37,145</u>
Subtotal	<u>2,481,268</u>	<u>\$ -</u>	<u>\$ -</u>	<u>2,481,268</u>
Less Accumulated Depreciation for				
Building	230,195	18,011		248,206
Bus Garage	57,381	13,340		70,721
General Equipment	122,376	6,002		128,378
Buses	747,660	184,737		932,397
Local Equipment	<u>29,781</u>	<u>1,371</u>		<u>31,152</u>
Subtotal	<u>1,187,393</u>	<u>223,461</u>	<u>-</u>	<u>1,410,854</u>
Net Capital Assets Being Depreciated	<u>1,293,875</u>	<u>(223,461)</u>	<u>-</u>	<u>1,070,414</u>
Business-Type Activities Capital Total				
Capital Assets--Net of Depreciation	<u><u>\$ 1,293,875</u></u>	<u><u>\$(223,461)</u></u>	<u><u>\$ -</u></u>	<u><u>\$1,070,414</u></u>

YATES TOWNSHIP DIAL-A-RIDE

NOTES TO FINANCIAL STATEMENTS

NOTE H--COMPENSATED ABSENCES

The personnel policies manual provides that vacation leave is earned in varying amounts depending on the number of years of service, and whether an employee is full-time or regularly scheduled as part-time.

Administrative policy requires that all vacation leave be used in the same fiscal year earned. In event of retirement or separation, all accrued vacation time will be approved for payment to the employee. In the event of death, accrued vacation will be paid to the full-time employee's estate. There is no pay-off of unused sick leave.

Sick leave is accumulated at the rate of 12 days per year for full-time employees.

NOTE I--EMPLOYEES' RETIREMENT SYSTEM DEFINED CONTRIBUTION

Plan Description

The Yates Township Dial-A-Ride became a participant employer in the Kemper Financial Services, Inc., defined contribution master plan administered by Governmental Benefits Group, Inc., effective December 1, 1995. The administrator prepares separate financial statements as required by State statute. All employees of the Yates Township Dial-A-Ride can participate in the pension plan. As of September 30, 2005, the pension plan's current membership was 10 employees.

A defined contribution plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. To be eligible, a participant in the plan must attain the age of 18 and complete one month of service. Contributions made by an employee vest immediately and contributions made by the Yates Township Dial-A-Ride vest on a six-year graduated vesting schedule. An employee that leaves the employment of the Yates Township Dial-A-Ride is entitled to his contributions and the Yates Township Dial-A-Ride's contributions if vesting requirements are satisfied. The employee may contribute any amount and the employer will match up to 5% of the employee's compensation. The Yates Township Dial-A-Ride's total covered payroll was \$294,438 and the total payroll was \$757,401. The required employer contributions were \$9,111, and the employee contributions were \$9,923. These payroll amounts are based on a calendar year.

YATES TOWNSHIP DIAL-A-RIDE

NOTES TO FINANCIAL STATEMENTS

NOTE J--POST-EMPLOYMENT BENEFITS

Yates Township Dial-a-Ride provides health insurance for employees during retirement providing the employee has completed 20 years of accumulated employment at Yates Township Dial-A-Ride. The insurance will be provided through an insurance program selected by Yates Township Dial-A-Ride. The level of coverage will be the same as what is offered to active employees. Retirees who qualify for Medicare coverage will be required to submit claims through Medicare, with the Yates Township Dial-A-Ride health insurance program providing supplemental health insurance. Employees choosing not to accept this insurance at time of retirement or termination give up their right to this coverage. Employees choosing to also cover a spouse or other family member will pay the difference in premium between single coverage for them and the coverage they seek. Currently, no retirees participate in this plan.

NOTE K--RISK MANAGEMENT

The Yates Township Dial-A-Ride is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Dial-A-Ride has purchased commercial insurance for business auto repairs, commercial general liability, commercial inland marine (radio and TV), commercial property (building and contents), computerized business equipment, workers' compensation and medical benefit claims. The Dial-A-Ride participates in the Michigan Transit Pool for claims relating to auto and general liability. The Michigan Transit Insurance Pool (Pool) was created pursuant to the provisions of Public Act 35 of 1951, as amended, and was incorporated under the Michigan Nonprofit Corporation Act, being MCL Sections 450.2101, et seq., as the Michigan Transit Pool, Inc.

The Pool is to provide administrative loss protection programs for the members, to pool losses and claims, to jointly purchase commercial services, including claims adjusting, data processing, risk management consulting, loss prevention, legal and related services. The Michigan Transit Insurance Pool is a separate legal and administrative entity. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 fiscal years.

YATES TOWNSHIP DIAL-A-RIDE
OPERATING EXPENSES
For the Year Ended September 30, 2005

SCHEDULE 1

	Operations	Maintenance	General Administration	Total System
Labor				
Operators' Salaries and Wages	\$ 400,408			\$ 400,408
Other Salaries and Wages		\$ 132,615	\$ 127,448	260,063
Dispatchers Salaries and Wages	64,988			64,988
Fringe Benefits	159,358	41,298	46,781	247,437
Services	15,349	25,335	10,025	50,709
Materials and Supplies Consumed				
Fuel and Lubricants	129,258			129,258
Tires and Tubes	9,736			9,736
Other Materials and Supplies	18,363	68,745	9,327	96,435
Utilities	21,161		1,611	22,772
Casualty and Liability Costs	81,928			81,928
Purchased Transportation Services	12,000			12,000
Miscellaneous Expenses	2,374		5,884	8,258
Depreciation	223,461			223,461
Total	\$ 1,138,384	\$ 267,993	\$ 201,076	\$ 1,607,453

YATES TOWNSHIP DIAL-A-RIDE
NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS
For the Year Ended September 30, 2005

SCHEDULE 2

	Federal Section 5311	State Operating Assistance
Operating Expenses		
Labor	\$ 725,459	\$ 725,459
Fringe Benefits	247,437	247,437
Services	50,709	50,709
Materials and Supplies	235,429	235,429
Utilities	22,772	22,772
Casualty and Liability Costs	81,928	81,928
Purchased Transportation	12,000	12,000
Miscellaneous	8,258	8,258
Depreciation	223,461	223,461
Total Operating Expenses	<u>1,607,453</u>	<u>1,607,453</u>
Less: Ineligible Expenses		
Depreciation	215,254	215,254
Other Operating Expenses Paid by Capital Contracts	3,083	3,083
Unauthorized Expenses	5,347	5,347
Dues	99	99
Total Ineligible Expenses	<u>223,783</u>	<u>223,783</u>
Net Eligible Expenses	<u>1,383,670</u>	<u>1,383,670</u>
Less: Project Revenue		
Job Access Reverse Commute Third-Party Contract	77,879	77,879
Specialized Services	14,421	14,421
Non-Transportation Revenue--Outside Vehicle Maintenance Services	17,079	17,079
RTAP Training Grant	1,263	1,263
Total Project Revenue	<u>110,642</u>	<u>110,642</u>
Net Eligible Federal Section 5311 Expenses	<u>\$1,273,028</u>	
Maximum Section 5311 Reimbursement (12.4%)	<u>\$ 157,855</u>	
Net Eligible State Operating Expenses		<u>\$1,273,028</u>
Maximum State Operating Assistance (38.43%)		<u>\$ 489,225</u>

**YATES TOWNSHIP DIAL-A-RIDE
MILEAGE DATA--UNAUDITED
For the Year Ended September 30, 2005**

SCHEDULE 3

	PUBLIC TRANSPORTATION MILEAGE
<u>DEMAND RESPONSE</u>	
FIRST QUARTER	127,634
SECOND QUARTER	122,206
THIRD QUARTER	133,679
FOURTH QUARTER	<u>101,741</u>
TOTAL DEMAND RESPONSE	<u>485,260</u>
<u>SPECIALIZED SERVICES</u>	
FIRST QUARTER	29,404
SECOND QUARTER	24,789
THIRD QUARTER	28,226
FOURTH QUARTER	<u>40,242</u>
TOTAL SPECIALIZED SERVICES	<u>122,661</u>
TOTAL OPERATIONS	<u><u>607,921</u></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

YATES TOWNSHIP DIAL-A-RIDE**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (1,2)****For the Year Ended September 30, 2005****SCHEDULE 4**

	Federal CFDA Number	State Grantor Number	Program or Award Amount	Federal Receipts/ Revenue	State Receipts/ Revenue	Disbursements/ Expenditures	
US Department of Transportation							
State and Federal Operating Assistance							
Computations Based on Operating Expenses							
Passed Through MDOT							
Operating Assistance (Section 5309)--Capital Contract	20.500	2002-0093Z7	553,319	\$ 1,276	\$ 319	\$ 1,595	(3)
Operating Assistance (Section 5311)--Capital Contract	20.509	2002-0093Z11	60,000	1,191	297	1,488	(3)
Operating Assistance--(Section 5311)	20.509	2002-0093Z10	151,473	157,855 (4)		157,855	
Rural Transit Assistance Program	20.509			1,263		1,263	
Michigan Department of Transportation							
Operating Assistance--Act 51	N/A				489,225 (5)	489,225	
Specialized Services	N/A	2002-0093Z9	14,421		14,421	14,421	
Net Unreimbursed Eligible Operating Expenses						607,181	
Total Operating Assistance				161,585	504,262	1,273,028	
Total Capital and Operating Assistance				\$ 161,585	\$ 504,262	\$ 1,273,028	

The Notes to Schedule of Expenditures of Federal and State Awards are an integral part of this statement.

YATES TOWNSHIP DIAL-A-RIDE
NOTES TO SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS

1. The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all Federal and State awards programs of Yates Township Dial-A-Ride (DAR). Federal and State awards received directly from Federal or State agencies, as well as Federal or State awards passed through other government agencies, are included on the schedule.
2. The accompanying Schedule of Expenditures of Federal and State Awards is presented using the accrual basis accounting which is described in Note B of the DAR's basic financial statements.
3. The operating assistance listed under the capital contracts is for equipment purchased under the grant agreements costing less than \$5,000 and not capitalized.
4. DAR recognized the \$6,382 difference between the maximum Section 5311 Reimbursement of \$157,855 based on the net eligible costs computation as presented in Schedule 2 and the contract award amount of \$151,473, as revenue in 2005. However, due to the uncertainty of the actual final payment to be received from MDOT, the DAR may not receive the entire \$6,382 difference recognized.
5. State operating assistance of \$489,225 was recognized based on the net eligible costs computation as presented in Schedule 2. The actual revenue to be received from the State is uncertain because the revenue is based on a fixed amount of state-wide available funding. It could be as low as the DAR's 1997 floor amount or as high as the statutory cap of 60% of eligible operating expenses. MDOT will recalculate the State operating assistance percentage in Schedule 2 after audited close-outs based on state-wide eligible expenses.



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

November 17, 2005

Yates Township
Dial-A-Ride
P.O. Box 147
Idlewild, Michigan 49642

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Board Members:

We have audited the basic financial statements of the Yates Township Dial-A-Ride, a component unit of Yates Township, Lake County, as of and for the year ended September 30, 2005, and have issued our report thereon dated November 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Yates Township Dial-A-Ride's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Yates Township Dial-A-Ride's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comments and recommendations as finding 05-01 through and 05-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all

reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether the Yates Township Dial-A-Ride's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. However, we did note other instances of noncompliance described in the accompanying Comments and Recommendations as finding 04-1 through 04-3.

This report is intended solely for the information and use of the management, the board of trustees, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

YATES TOWNSHIP DIAL-A-RIDE
COMMENTS AND RECOMMENDATIONS

OTHER REPORTABLE CONDITIONS

Although the following are not considered material weaknesses in internal controls, our audit disclosed certain other reportable conditions, which we wish to point out for consideration.

Receivables-Collection Policy

Finding 05-01

Condition: The Dial-a-Ride has no formal policy or procedures to review receivables and try to collect the unpaid balances or write-off the uncollectible amounts.

Criteria: Generally Accepted Accounting Principles (GAAP) require receivables to be closely monitored and maintained and, if necessary, written-off to properly represent the financial condition of the balance sheet.

Recommendation: We recommend the Dial-a-Ride establish formal policies and procedures to review the accounts receivable to determine the course of action necessary to collect the unpaid balances or write-off the accounts.

Accrued Wages

Finding 05-02

Condition: The accrued wages were not recorded at the end of the fiscal year.

Criteria: Generally accepted accounting principles (GAAP) requires that revenues and expenses be recognized in the year incurred.

Recommendation: We recommend that the Yates Township Dial-A-Ride implement a procedure to record the accrued wages at the end of the fiscal year.

Payroll Liabilities

Finding 05-03

Condition: The Yates Township Dial-A-Ride had running balances in its payroll withholding liability items.

Criteria: The payroll liability accounts are designed to be a holding account for payroll items until they are paid. Once paid, the balances in these line-items should be eliminated.

Recommendation: We recommend that the Dial-A-Ride monitor these payroll liability accounts to ensure that the payroll withholding are properly recorded and properly paid on at least a monthly basis.

YATES TOWNSHIP DIAL-A-RIDE
COMMENTS AND RECOMMENDATIONS

STATUTORY COMPLIANCE

Unlawful Expenses

Finding 04-01

Condition: During our payroll testing, we found that Yates Township Dial-a-Ride paid employees a Christmas Bonus of \$3,475. We also found that \$1,872 was paid for a Christmas party at the Holiday Inn. The grand total of expenditures is \$5,347.

Condition: According to Attorney General Opinion No. 2346 of 1956, there is no statutory provision authorizing township transits (or local units of government) to make expenditures from public funds for the private purpose of purchasing Christmas gifts/parties. In addition to the lack of statutory authority, the expenditure of public funds for such a purpose is unlawful in principle. There can be no furtherance of the general public welfare of the township or its citizens in the expenditure of money of public funds for parties for private occasions, however worthy the motive of the giver.

Recommendation: We recommend that the Dial-A-Ride discontinue the practice of funding Christmas bonuses and parties using the Dial-A-Ride's funds.

Electronic Transactions of Public Funds

Finding 04-02

Condition: Yates Township Dial-A-Ride electronically transfers funds for payroll withholdings without legal authority.

Criteria: According to MCL 124.303:

“A local unit shall not be a party to an Automated Clearing House (ACH) arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the Electronic Transaction Officer (ETO) of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- (a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- (b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- (c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- (d) The approval of ACH invoices before payment.
- (e) Any other matters the treasurer or ETO considers necessary.”

YATES TOWNSHIP DIAL-A-RIDE
COMMENTS AND RECOMMENDATIONS

STATUTORY COMPLIANCE (Continued)

Recommendation: We recommend that the Dial-A-Ride adopt a resolution to authorize electronic transactions and to adopt a policy that includes the above mentioned items.

Credit Card Policy

Finding 04-03

Condition: We found that the Yates Township Dial-A-Ride has a credit card. As of November 17, 2005, the board has not adopted an official credit card policy.

Criteria: According to Public Act 266 of 1995, a formal credit card policy with a description of the internal controls must be adopted by the board.

Recommendation: We recommend that the Dial-A-Ride adopt an official credit card policy in accordance with Public Act 266 of 1995.